



## **DIRECTIVE TO BANKING INSTITUTIONS**

### **“OVERHAUL OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS”**

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#### **INTRODUCTION**

1. The Reserve Bank has noted, with utmost revulsion the laxity and general carefree attitude that had engulfed and permeated the entire banking sector over the recent past.
2. A number of banking institutions were involved in unethical activities and allowed themselves to be used as conduits for illicit transactions. These unprincipled activities threatened the stability of the financial system, exacerbated the cash

shortages and fuelled inflation, thereby negating the Reserve Bank's efforts to turnaround the economy.

3. The challenges initially perceived by banking institutions as transitory liquidity dislocations now reflect deep rooted anomalies in bank practices aggravated by total disregard of prudent banking practices, with some transactions bordering on elements of criminality.
4. With immediate effect, therefore, the Reserve Bank is reinforcing the following risk management and internal control interventions.

## **STAFF ROTATIONS**

5. It has become clear to all who care to see that some bank employees have become too

comfortable in their zones that they have created their own empires and now regard themselves as sacred cows.

6. In order to curtail abuse of office by bank employees, all banks are required to submit schedules of staff rotation, especially for tellers, custodians and branch managers, indicating where from and where to they are being transferred.
7. These schedules must be submitted to the Reserve Bank by 1 December 2008.

## **ENHANCED RISK MANAGEMENT FRAMEWORKS**

8. Lack of judicious and prudent risk management exposed some banks to unscrupulous individuals

who were engaging in irregular and unorthodox practices detrimental to financial stability.

9. All banking institutions are directed to submit updated risk management frameworks clearly demonstrating that the institutions have taken into account weaknesses noted during the recent madness involving some stock broking firms.

10. These enhanced risk management frameworks, must be submitted to the Reserve Bank by 1 December 2008.

## **LENDER OF LAST RESORT FACILITY**

11. As Monetary Authorities, we reiterate that no banking institution shall have access to unsecured lending from the Reserve Bank. All banking institutions should, therefore, realign their asset

and liability management structures in order to avoid unwarranted recourse to the lender of last resort facility.

12. In addition, in the case of exposure arising from fraudulent activities by and/or conducted through a bank, that institution shall automatically lose the privilege to access the Reserve Bank's accommodation window, even on a secured basis.

## **KNOW-YOUR-CUSTOMER PRINCIPLES**

13. The Reserve Bank has repeatedly emphasized the need for every banking institution to promote adherence to the letter and spirit of KYC principles.

14. Reflecting lack of responsiveness by some banking institutions, the recent events in the

financial sector have demonstrated that this advice has long gone unheeded.

15. All banking institutions are directed to strictly comply with KYC guidelines issued through the Reserve Bank's circular to all banking institutions dated 12 November 2008.

## **ABUSE OF MULTIPLE ACCOUNTS**

16. All banks should strictly enforce maximum cash withdrawal limits as prescribed by the Reserve Bank from time to time.

17. Where a customer is flouting the withdrawal limits using multiple accounts, bank management shall be held responsible and disciplinary action shall be instituted against such negligent and irresponsible bank employees.

## **SUSPICIOUS TRANSACTIONS REPORTING**

18. All suspicious transactions and fraudulent activities, where these are established, should immediately be reported to the Reserve Bank in terms of the Bank Use Promotion & Suppression of Money Laundering Act [*Chapter 24:24*] and directives as issued by the Reserve Bank from time to time.

19. Failure to report any such matters will result in the entire board and senior management being deemed unfit and improper to oversee the operations of any banking institution in Zimbabwe. Consequently, the Reserve Bank will direct the removal of such officers and directors. Further, the Chief Executive Officer of such banking institution will be charged with

criminality in terms of the Companies Act [Chapter 24:03].

## **ZIMBABWE STOCK EXCHANGE TRADES**

20. The hype experienced on the Zimbabwe Stock Exchange (ZSE), driven by infectious greed created an opportunity for unscrupulous economic agents to connive with some bank employees and created huge credit balances through funding share purchases using fraudulently drawn unfunded bank cheques.

21. With immediate effect, all ZSE transactions must be supported by actual confirmed bank balances of the purchaser, which must be confirmed and signed for by the Chief Executive Officer.

## **NON-CORE BUSINESS**

22. An analysis of the banks' financial statements as at end of September 2008 reveals that the bulk of the banks' revenue is from non core business which is unsustainable.

23. This is a cancer that continues to show its ugly head since the financial crisis of 2003/4. Once again, some banking institutions have been caught up in speculative activities, including personal investments on the stock exchange, real estate and purchase of posh vehicles in total disregard of the provisions of the Banking Act and Regulations.

24. With immediate effect, all banking institutions are directed to unwind any deployment of assets in non-core areas and submit the realigned balance sheets by 30 November 2008.

25. Please be guided accordingly.



**DR G. GONO**

**GOVERNOR**

**RESERVE BANK OF ZIMBABWE**

**25 NOVEMBER 2008**